# Seattle City Council

July 30, 2012
Sent Via Email

Chris Hansen
Valiant Capital Partners
One Market St.
Steuart Tower, Suite 2625
San Francisco, CA 94111

Dear Mr. Hansen,

Thank you for engaging with us on modifications to the proposed Memorandum of Understanding (MOU) for the SoDo district arena.

We appreciate your willingness to significantly invest in our city and, like you, we look forward to the return of the SuperSonics.

We believe that construction of the arena at the SoDo site could be an important catalyst to enhance the Stadium Transition Area Overlay District and its adjacent neighborhoods. The opportunity also exists to provide further protections of our vital maritime and industrial job sectors, part of Seattle's economic foundation and a large provider of family wage jobs. We hope we can soon reach agreement on the modifications necessary to move forward together.

Since we began our review of the Mayor's legislative package related to the arena on May 18, 2012, we have worked hard to understand the opportunities and the risks of this investment. We appreciate your patience as we carry out a thorough and comprehensive review of the proposal before us.

So far, we have held eight committee meetings to consider this proposal, including five presentations from the Mayor's staff, two briefings from Council Central Staff, a panel discussion with SoDo district stakeholders and a public hearing held jointly with the King County Council. We have also closely followed the deliberations of the King County Council and consulted with outside legal and municipal finance experts who provided additional insight for our consideration.

Our review has led the majority of Councilmembers to conclude that the agreements do not represent an appropriate balance of public and private benefits, nor do they sufficiently protect the City from the financial risks inherent in the arena's financing. However, it would be unfortunate if the project were to founder now because we believe it could be successful in helping to bring back the NBA and open the door for the NHL and provide the opportunity for our region to begin to address longstanding transportation challenges, especially those related to freight mobility. But without addressing the concerns detailed below, we do not believe that proceeding with the project would be in the City's or the public's best interest.

As proposed, arena financing would depend on 100% of the direct tax revenues generated by the arena. The City will ultimately own the arena and the land on which it is built in exchange for these revenues, but ArenaCo—not the public—will enjoy the benefits of using the land and arena for at least 32 years and perhaps as many as 52 years through lease extensions at the sole discretion of ArenaCo. In the near term, full dedication of these public revenues will deprive the City of a funding source that could and should be used to address the impacts of the arena beyond those you will be responsible for and to leverage the arena development into broader public benefits for SoDo and the surrounding area. In particular, transportation issues must be addressed and freight mobility impacts mitigated to protect the city's vital maritime and industrial job sectors.

Bonding against a portion of arena tax revenues could provide a significant amount of capital funding for major transportation investments. Moreover, a significant commitment of funding from this source could be used to leverage other transportation funds from local, state and federal partners.

In seeking to promote economic development and regional investment, we have often taken regulatory actions and made significant public infrastructure investments to attract new businesses to Seattle. That is why we are open to sharing a portion of the arena tax revenues with you, but are not supportive of a structure that captures 100% of the public resources generated by the arena for private purposes. This fundamental aspect of the proposal does not represent an appropriate balance between private and public benefit, particularly not when the project will create impacts that Seattle taxpayers will be forced to address with other public resources. In order to move forward, we will need to arrive at a more equitable arrangement.

At a more technical level, but one that is critical from a policy perspective, the proposed MOU fails to provide the City and the public sufficient guarantees to offset the financial risks that we and the County will incur. Investment of $200 million in public debt represents a very significant financial exposure. If such a risk is to be taken on for the benefit of private investors, it is entirely appropriate that the City and County be provided the highest level of financial guarantees. While much has been made of the financial protections in the proposed MOU, our review has identified a number of specific provisions that need to be strengthened. While a detailed discussion of these issues is most appropriately held among our legal advisors, the following issues are among those that must be addressed before we can move forward:

- The MOU delays determination of the City's lien position in relation to other lenders. Delaying this decision until after the MOU has been signed puts the City at a distinct disadvantage. Specific parameters for this issue must be included in the MOU.

- The MOU does not include minimum capitalization requirements for ArenaCo and ParentCo that would provide substance behind the guaranty offered by these entities.

- The MOU does not determine a method for the City and County to independently verify that ArenaCo meets, on an ongoing basis, the financial performance targets set in the agreement.

- At present, we have no direct knowledge or confirmation of your basic business plan, level of capitalization or how dividends or distributions to the investment group will be constrained to protect the City's financial exposure. If the City is to enter into this public-private partnership, we should expect to see the same information that all your other partners and commercial lenders will have before making their investments.

The City has been asked to make a pre-commitment to the financial terms of this investment partnership and risks the loss of negotiating leverage when developing the final transaction documents. It is absolutely essential that the City secure appropriate guarantees <u>at this stage in the process</u>.

Beyond these and other important technical provisions regarding financial security, the proposed MOU fails to appropriately address the on-going financial exposure that will be created for the City through its ownership of KeyArena. The MOU identifies the possibility of a future agreement, but provides no specifics. Reference is made to improvements that will be made at KeyArena as part of its use as a temporary host facility, but there are no details about what specific upgrades will be provided. Further, the Council has seen no concrete proposal for the future of KeyArena and the available research rather clearly points to the fact that such aging, secondary facilities do not compete well and can quickly become a financial burden for their owners. Agreeing to invest in a new SoDo district arena—without proper controls and decisions about future usage and management of KeyArena—could render the older arena obsolete. This is a significant cost that must be factored into our consideration. Resolution of these issues may require further work by the Mayor and his team, but we also need to better understand the interim investments you plan for KeyArena so that we can determine how their value will affect the City's plans for the facility.

Local governments can employ many tools to encourage economic growth. Rarely, however, does the City invest so directly and in such large sums in an asset that will be operated by a private, for-profit enterprise. To do so requires not just adequate security for our investment but also that the City receive significant and guaranteed public benefits.

We hope that you agree that we should view these remaining barriers to an agreement as an opportunity rather than a burden. If these issues can be resolved, we are prepared to quickly move forward a legislative package that is more financially balanced and strengthens protections for the City and its residents. We look forward to working with you and continuing our discussions.

Sincerely,

Council President Sally J. Clark

Councilmember Sally Bagshaw

Councilmember Tim Burgess

Councilmember Richard Conlin

Councilmember Jean Godden

Councilmember Nick Licata

Councilmember Mike O'Brien

Councilmember Tom Rasmussen